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ABSTRACT
Lake City Community College began its involvement with the National Direct Student Loan Program in 1965. As of June 30, 1975, the college had loaned $317,625 to 486 students--an average of $653 per student. Of this amount, $93,292 has been repaid or cancelled, leaving $224,333 outstanding and $42,678 past due. Of the past due amount, $15,142 is past due by one year to two years, and $17,190 is past due by two years to over five years. Of those students who are two to five years delinquent, 85 percent cannot be located. The author speculates that the number of delinquent payments is largely attributable to (1) borrowers in the vocational and technical areas who have not been successful in obtaining employment and who, consequently, cannot repay, and (2) borrowers in the fields of forestry, landscaping, and golf course operations, who typically come to the college from other states and leave on completion of their coursework, and now cannot be found. In order to eliminate the high delinquency rate, the author recommends certain improvements in the operations of the college financial aids office, and discusses several methods for solving the problem on a national basis. (DC)

"STUDENT LOAN COLLECTIONS AT LAKE CITY COMMUNITY COLLEGE"

PRESENTED TO
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INTRODUCTION

Student loans are a relatively new feature to the community college. In 1958, Congress passed the National Defense Education Act, Title II of which provided for long-term, low interest loans to students (Hartman, p. 177). Many community colleges felt that the panacea for resolving student's financial woes had finally come to fruition. Colleges and universities readily began to loan funds to students without hesitation and without any concentration on repayment provisions. It was the federal government's intention to create revenue in the area of student loans in order to encourage the growth of higher education as well as a means to stimulate enrollments of certain target groups, or to stimulate particular types of training (Hartman, p. 177). This program was an immediate success. However, after a few years passed, institutions began to question if loans had been awarded to responsible and dependable students who would adhere to the repayment regulations ascribed by the Department of Health, Education and Welfare. This question was of a particular concern to the community college, in that some students of low income were in debt as much as $2,500, with only an Associates of Arts degree. While Community colleges were aware that loans for low-income students is an attempt to alter the distribution of college attendance and graduates (Hartman, p. 180), the question of repayment suddenly was asked of community colleges and no adequate answer could be supplied.

Many of the students attending community colleges are in the vocational area, where no cancellation provisions are permitted. thus, the entire loan with three per cent (3%) interest must be repaid. With this in mind, the writer has chosen to focus the review of collections of the National Direct Student Loan to Lake City Community College. An attempt has been made to include Santa Fe Community College in this study. However, the new administrator in the area of Student Financial Aid is not prepared at this time, to supply the writer with the historical prospective of the National Direct Student Loan program for Santa Fe.

The Lake City Community College Financial aid office has been helpful in retrieving the necessary information. Hopefully, my findings will be of some value to the institution.

Title IV, section E, Higher Education Act, National Direct Student Loan program states that "undergraduates are limited to $2,500 in their first two years" (OE regulations, p. 1.). The regulations further indicates the responsibilities of each institution relative to loan collection. Listed below is section 144.30 of the loan collection procedures as ascribed by the Office of Education.

> Each institution at which a Fund is established shall exercise due diligence in the collection of the amounts due and payable to its Fund. In the exercise of such responsibility, each institution must consistently utilize extensive and forceful collection practices. In particular, an institution shall:

(a) Provide to each borrower, not later than the time when he signs his promissory note, full disclosure of his rights and obligations thereunder;

(b) Conduct an exit interview with each borrower prior to his leaving the institution and provide the borrower at that time with a copy of his repayment schedule specifying the total amount of the loan and dates and amounts of installment as they become due;

(c) Maintain a written record of the exit interview, including a repayment schedule signed by the borrower which shall be made a part of the borrower's file;

(d) Maintain contact with the borrower after his leaving the institution in order to facilitate billing and in order to keep him informed on a timely basis of all changes in the program affecting his rights and obligations;

(e) establish and maintain regular billing and follow-up procedure during the period in which any outstanding balance remains unpaid, including:

(1) The sending of:

(i) The letter of notice and a statement of account of each borrower no later than 30 days preceding the date on which the first repayment installment is due;

(ii) A statement of account to each borrower no fewer than 10 days preceding the due date of each payment subsequent to the first payment; unless a coupon system is established;

(iii) When any payment is not received within 15 days of the due date, a telephoned or written demand to the borrower for payment followed by two more such demands spaced 15 days apart if no response to the initial demand is received;

(2) The maintence of a monthly list of payments in areas with respect to loans not paid when due;

(3) Other routine procedures for effecting prompt and regular repayment including personal or telephonic contact where possible;

(4) In the case of a borrower whose address is no longer known, performance of a thorough search of all reasonably accessible information which may lead to the borrower's current address, including record checks in all appropriate institutional offices, checks of the telephone directory or information operator in the city or town of the borrower's last known address, and the use of the Office of Education's skip-tracing service, which will be provided free of charge to the institution;

(f) Use other collection services, such as a commericial skip-tracing service and/or other services which provide extensive telephonic contact with the borrower in default and as to which the institution has utilized all the procedures enumerated in paragraph (e) of this section and

(g) Use of collection agent and/or resort to litigation as may be appropriate in the case of a loan on which the borrower is in default and as to which the institution has utilized all the procedures enumerated in paragraphs (e) and (f) of this section; if a collection agency is used; it must be bonded, in an amount which will fully protect the amount of the notes turned over for collection.

Lake City Community College began its involvement with the National Direct Student Loan Program in 1965. This program got off to a slow start, with many students being reluctant to borrow money. With the mean income being less than $3,000 in 1965, for many of the residents, a high proportion of the students were from low-income familes, who were of the opinion that borrowing money was not the wise thing to do, in order to go to college. The Director of Student Financial Aid had these remarks concerning the problems of borrowers, "a great deal of explanning, convincing and coersion was necessary to make these students aware of the benefit of borrowing. This was the only way to relieve the financial burdens of many of my married and divorced students" (Williams). Nevertheless, once the program got off the ground, it became as a contagious disease; with everyone wanting to receive a loan.

By 1969, the program was well established at Lake City Community College, and students were waiting in line to receive some type of financial assistance from this program. As of June 30, 1975, Lake City Community College has loaned $317,625 to 486 students. The average loan for each student approximates $653. On a national prospective, the National Direct Student loan program, from its inception through the 1973 academic year, the federal government has provided 2.2 billion for education institutions to make loans to students. During the 1974 school year, 286 million dollars from the federal government, enabled 674,000 students to receive an average of $690 yearly (Muirhead p. 8).

Concomitant to Lake City's loaning of the above amount, $93,292 of this amount has been repaid or cancelled, leaving $224,333 outstanding and $42,678 past due. Of the past due amount, $3,961 is past due by 120 days or less, $6,385 is delinquent by 121 days up to one year, $15,142, is past due more than one year - up to two years, $5,584 is more than two years delinquent, up to three years, $6,132 is more than 3 years up to 4 years past due, $2,818 is more than four years up to 5 years delinquent and $2,656 is more than 5 years past due. These figures indicate a 13% overall delinquency. This area is in need of improvement, however, comparatively speaking, the collection returns are "stable" when you analyze Lake City's collection results among other community colleges in the state.

A major portion of the delinquent borrowers are more than one year up to two years in arrears. Speculatively, the writer attributes these delinquents to the borrowers in the vocational and technical areas who have not been successful in obtaining employment. The loan recipients pursuing training in areas such as auto body repair, auto mechanics, cosmotology, brick masonry, have not been able to find employment or have not obtained the kind of job that will enable them to meet their financial obligations. In the areas mentioned above, the graduates infrequently leave the surrounding environment. These students typically have resided in the area during their childhood and have planned to remain a resident of the area. These students are not ones which one must place concerted efforts to locate; they are in the area and can be located most of the time. However, money is not available for payment.

On the other hand, there are borrowers that one does have difficulty in locating. These borrowers are usually concentrating in the forestry, landscaping and golf course operation areas. A cursory analysis of 400 graduates in this area within the last three years, indicate only 42 students were from the State of Florida. Typically, these students are from the northern section of the United States, and they do not remain in the south after completion of their course of study. They are not in the same category as the students previously described. The latter borrowers are typically described as "deadbeats".

They are employed in a capacity commensurate with their training and salaries are considered "good" as one looks at the current salary scale. Neverhteless, these borrowers are of the opinion that they are beating the system; they are not obligated to pay their loan.

A combination of the two groups described and other students that are pursuing areas not mention, comprises a significant proportion of students that are more than one year but less than two years delinquent with repayment of their loans.

Students that are at least one year delinquent, many of them are "drop-outs." The writer randomly checked the records of ten students in this area; the findings are indicated below:

1. Seven of these students have a reading ability of less than eighth grade. The remaining three were in the 9 - 11 grade reading level.
2. Each of the students had at least one remedial course during the semester(s) enrolled.
3. From the writer's prospective, each student was enrolled in a class that required a high level of comprehension in order to successfully achieve in the course.
4. Nine of the ten students, were from families with an income of less than $3,000.
5. There was an absence of the father in seven of the ten families. Five of the mothers were employed

and five received assistance from the division of family services.

6. The entire ten (10) borrowers, were the first in the household to ever attempt to pursue a degree beyond high school.
7. Eight of the ten were pursuing as associates of arts degree.
8. Three of the ten had at least one child. All ten were dependents of their parents.
9. Six of the ten were residents of Columbia County, three were from the surrounding counties, and one resided out of the state.
10. Five of the ten did not return after the first semester, three withdrew in the second semester. The remaining two, started during the summer and did not complete the session, nor did they properly withdraw.
11. Eight of the ten were placed on academic warning after the first semester. One was placed on academic probation.
12. All ten of these applicants applied for financial assistance after the deadline date, and grant funds had been committed to students applying before the deadline date.

These students are what society has labeled "high risk" borrowers. With the aforementioned in mind, we will review the characteristics of the student loan program from a national prospective. "Commericial lenders make loans based on records, colleges and universities base their loans on faith--faith in the future potential earning power of the educated borrower" (Maynard, p. 16). Five major problems exist in allowing students to borrow from an educational loan program:

1. Education loans are granted to minors or those who have recently become adults.
2. Generally the borrower is without any credit record.
3. Those who borrow are without income.
4. Colleges loan to person unknown to the community.
5. Larger amounts are loaned to persons with the more ~~disadvantaged backgrounds (Maynard, p. 16).~~

In awarding loans to students, there is little resemblance in commericial loan transactions, other than the signature which is required on the note and the money exchange. Allan Maynard points out five variance with most normal credit procedures and collection process:

1. The average loan is collectible within 30 to 45 days. Because education loans do not become collectible until graduation or withdrawal and may be coupled with deferments for continued education, Armed Forces, Peace Corps, and VISTA, as many as ten or more years might elapse between the time that the original loan has been granted and the time that the collection process begins. Such a time gap might possibly extend the life of a loan as much as twenty years.
2. Cancellations and deferments are possible in most government-sponsored funds. These provisions tend to produce bad psychological effects upon the borrower when either expire and cash is required. There are no such provisions in loans granted by banks or other commercial lending agencies.
3. While for the most part, banks deal with borrowers who reside locally, educational institutions may deal with borrowers from throughout the nation, as well as abroad.

4. Education borrowers are one-time borrowers. They have little need to establish good credit records with the school from which they obtained a loan especially in an age when confidentiality of records is a principle so meticulously adhered to by education institutions. When people borrow from banks, however, they usually want to establish good credit records so that future borrowing needs will not be jeopardized.
5. Lastly, colleges and universities are newcomers to the lending business. For example, at Brown University in 1958, 67,000 was loaned; in 1973, $1,000,000 was loaned. At stake, then, is a sizeable amount of money against a backdrop of alumni relations and development programs. Commericial lending agencies, especially the banks, are not exactly out to ruin their image by using harsh collection tactics; but what is much easier for a corporation, which exists partially for the purpose of lending and collecting is a great deal more difficult for a philanthropic institution dedicated to the pursuit of wisdom (Manard, p. 18).

The last category, (2-5 years delinquent), many of these borrowers can not be located, in fact the writer would estimate from her findings at least eighty five percent (85%) of these borrowers have not been located. These borrowers have been referred to Lake City's collection agencies; Interstate Account Services and Central Adjustment Bureau. The recovery rate has been fair.

Lake City Community College is working deligently to improve collections on their National Direct Student Loans. The writer makes the following recommendations that could aid in eliminating the high delinquency rate.

1. Increase personnel. The staff includes one directress, a college work study coordinator and a secretary. Adequate time can not be spent in collection with a limited staff and with the responsibility of more than $750,000 in federal assistance.
   (a) If one person could handle the exit interviews, the promissory notes and the summary loan sheet it would alleviate many of the problems.
   (b) Because of the voluminous paperwork and shortage of personnel, many students have graduated before it is determined that they have not had an exit interview. The financial aid office should work closely with the registrar's office to avoid such problems.
2. Better utilization of time. Events and deadlines should be perted out or placed on a calander of some kind in order to be able to better plan the time and work responsibility of each employee.
3. Improve billing system. Even though there are only two billing agencies serving the thousands of institutions not equipped to do their own billing; better coordination should exist between the school and the billing agency. A trip to Wachovia Services in Winston Salem, North Carolina could bring about improvements in the present billing system.
4. Inform the borrowers of their financial obligation. A small school as Lake City Community College should be able to have some type of discussion or meeting collectively with each borrower, making him aware of his financial obligations and the consequences if this obligation is not met. It is a known fact that the student does not take the time to read the promissory note. Someone should take the time to educate the student to his responsibility.

(5) Research the area of computerization. Much of the work that is done manually, may be placed on computers. Confer with the director of computer programming in order to see how some of the paperwork relative to the loan program can be placed on the computer.

The above mentioned recommendations will resolve many of the internal problems currently existing with the National Direct Student Loan Program at Lake City Community College. However, it does not resolve the problems on a national basis. Many congressmen, educators and taxpayers are approaching the problem with the answer being to eliminate the program and devise other alternatives. A panel organized by President John F. Kennedy has recommended the Education Opportunity bank as part of the solution to the problem. The recommendation is as follows:

> The Panel recommends establishment of a bank, which might be called the Educational Opportunity Bank (ED OP Bank), as an agency of the Federal Government. In order to obtain funds the Bank should be authorized to borrow money at going Government rates. It should be authorized to lend money to postsecondary students, regardless of the student's resources. A student should be able to borrow enough money to cover his tuition, costs, and subsistence at whatever college, university, or other postsecondary institution he is admitted to. The Bank would recoup their loans through annual payments collected in conjunction with the borrower's future income tax. At the time a loan was granted, the borrower would pledge a percentage of his future income for a fixed number of years for repayment be 30 or perhaps 40 years. This period would be fixed term for all borrowers. The percentage of income pledged would be proportional to the amount borrowed. Preliminary estimates are that the Bank could be self-sustaining if it charged borrowers 1% of gross income over 30 years for each $3,000 borrowed.
>
> This might be considered not a 'loan prgram' at all, but a device for enabling students to sell participation shares in their future incomes. For purposes of clarity we refer to the proposal as one for 'contingent-repayment loans' and to present programs as 'fixed repayment loans.'

Contingent-repayment loans have three principal advantages to the individual over present fixed-repayment programs:

1. No student borrower would have to worry about a large debt he could not repay. If he entered a low-income calling, or were unsuccessful in a normally affluent one, his obligation to the Bank would decrease proportionately to his income for that period.

We anticipate that this would make students much more willing than they currently are to borrow for higher education. Students from low- and middle-income families would no longer be at a significant financial disadvantage in seeking higher education and would be almost as free as students from academically qualified. As a result, the proportion of low-income students attending college might increase appreciably and the porportion able to attend colleges well suited to their needs might increase substantially.

2. By spreading repayment over 30 or 40 years instead of 10, the Bank would make it feasible for individuals to borrow much larger sums than are currently allowed. Estimates suggest that the Bank could break even if it charged borrowers 1 percent of gross income over 30 years for each $3,000 borrowed. Currently, authorized loan programs have a four year maximum of $5,000. Five thousand dollars will not cover susistence and tuition expenses for four years at most residential colleges or at most private commuter colleges.

The Bank would be able to lend enough to cover subsistence and tuition at any college. This would currently mean a 4-year miximum loan of at least $15,000, rising in subsequent years. We doubt that many students would choose to borrow this heavily, since this would mean committing about 5 percent of their future earnings. Nonetheless, the option would be avialable to the poor but ambitious students who wanted to attend an expensive private college but could not obtain adequate scholarship assistance.

3. The availability of loans would not be directly affected by the state of the money market.

The Bank could differ from existing Federal loan programs in another important respect: it could probably be financially self-sustaining. However, the Bank might also be subsidized by the Federal Government in the same way that present loan programs are subsidized. The extent to which the Bank might be used as a channel for Federal subsidies for education could be easily adjusted by Congress at any time. The Bank itself would be both visible and useful whether or not it was subsidized (Zacharias, p. 657).

Jerrold Zacharias points out three advantages of the utilization of an Educational Opportunity Bank:

1. The Bank would make it possible for any student to pay his own way, if necessary, at any college, university, or other post-secondary institution to which he would gain admission.

2. Large government programs, whether they entail grants, subsidies, scholarships, or other allocations, are not easily administered when there is no need for discrimination among recipients. The proposed program requires no one to decide between the rich and the poor, or among the merits of various cities, states, institutions, etc. It needs no peer-group evaluations, no political pressures, no compromise among the various aspects of civil rights.

3. If this borrowing program became popular and if a substantial portion of higher education were in fact paid for tuition and subsistence charges, the flexible funds of private foundations might be used in flexible ways for innovation, improvement, research and development, and the future might result in a better understanding of the processes of learning and of education (Zacharias, p. 658).

Another proposal is the NSLB, the National Student Loan Bank. Wilbur J. Cohen recommends the following to remedy the deficiencies in the present student loan program:

The NSLB would be a nonprofit private corporation established by the U. S. Government. The NSLB would issue its own securities to raise capital for student loans and would make loans at fixed interest rates. It would replace the guaranteed loan program and the National Direct Student loan. The NSLB would have the following features:

The Bank would lend any eligible undergraduate student or graduate student (or medical, dental, etc.) an amount each year which could not exceed his tuition and living costs minus any Federal aid received. Eligibility would be based solely on enrollment in an institution of higher education and would extend for up to 5 years at the undergraduate level of 5 years at the graduate level.

The NSLB would devise methods of repayment that allow for various terms extending up to 30 years. Provisions would be made for rising repayments over time (in keeping with income) or constant annual payment at the option of the borrower.

Interest during enrollment would be paid by the Federal Government. Interest charges would be set in such a way that there would be no subsidy during the repayment period.

Federal loans might be repayable through the Internal Revenue System. Even with this feature, the NSLB would probably have low collection costs.

The Federal Government would reimburse the Bank for losses due to death, disability or default, as at present. In addition, a feature might be added which would allow for a limited form of pooling or mutualization of risk. For any year in which a borrower's income falls below certain levels, a portion of the loan payment for the year would be cancelled. This feature could be designed to affect 5-10 percent of the scheduled repayments.

The Carnegie Commission on Higher Education has made a similar recommendation:

The Commission recommends that a Federal contingent loan program be created for which all students, regardless of need, would be eligible. With interest figured on the basis of Federal borrowing costs, the program sould be self-sustaining, except for administrative costs, which would be met out of appropriations. Undergraduates would be eligible to borrow up to $2,500 per year, and graduate students up to $3,500 per year, for educational purposes. No student should be entitled to receive more in loans, all types of grants, and work-study payments in any year than the costs of education, including subsistence costs, as officially recognized by the institution in which he is enrolled.

The program would be administered through the institutions of higher education, which will have the relevant information on grants and workstudy payments to loan applicants.

Level of funding: A loan program of this sort must be viewed as clearly experimental; it is difficult to predict the extent to which it is used. But if loans are to be made available to students without reference to need, it will be necessary to have the initial level of funding for the loan program high enough to eliminate any requirements for setting priorities among loan applicants. The Commission suggests that funding be made available to provide students loans totaling $2.5 billion in 1970-71, possibly incrasing to as much as $5 billion in new student loan in 1976-77.

It is also difficult to predict the level of Federal expenditures which would be required by this loan program. Although designed to be self-supporting, the program would require particularly in the initial years, annual Federal appropriations amounting to perhaps 5 percent of new loans committed that year for administrative costs and contingencies. This would amount to about $125 million in 1970-71, rising to $250 million in 1976-77 (Zacharias, p. 659-660).

SUMMARY

The writer is of the opinion that Lake City Community College loan program and its problems are indigenous to the college community throughout the country. While there remains the controversy of continuing existence of the National Direct Student loan program, it does not eliminate the problem of collections. The loans that have been awarded to students must be collected if the program continues or suddenly demises, unless the law is changed.

It has been observed that the institution (LCCC) has consistently during the past three years, returned unused loan funds to the federal government and has requested additional grant funds. The writer believes that the crusade to receive additional grant funds should be encouraged. Because of the impoverished conditions that exist with many students, the less they can borrow the better.

The dilemma relative to loans concerns itself around the independent student who may have several dependents or the expenses of that student exceeds the purview of receiving grants only. The financial aid office must make a decision to either meet the total need of the student, by awarding a loan on good faith, or meeting a portion of the students need by excluding the loan. The Office of Education regulations state that the financial aid office should use "extreme caution" in awarding student loans. If financial aid officers took this statement literally, at this time, the federal government would not have reached the one billion dollar mark in the amounts which have been loaned.

To resolve this problem nation-wide, the writer feels that the regulations should be revised with a loan-grant clause. students substantiating by affidavits an inability to repay their loans, should be provided with an option to convert the loan to a grant. Students that are able to pay, and refuse to do so, institutions should vigorously apply themselves in the collection processes of these loans.

Lake City Community College has welcomed suggestions, and the writer is of the opinion that improvements will be made in this area. Overall, there does exist a commitment to the financial aid programs, and the constituency as well as the higher echelon is cognizant of the important role of financial assistance and how it impacts upon the enrollment of the institution.

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